

**MINUTES OF THE
CAPITAL PROJECTS AND BOND
OVERSIGHT COMMITTEE**

March 18, 1998

The Capital Projects and Bond Oversight Committee met on March 18, 1998, at 11:00 a.m. in Room 111 of the Capitol Annex. Representative Robert Damron, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Robert Damron, Chairman; Senator Bob Leeper; Representatives Paul Marcotte and Jim Wayne.

Guests: Bill Hintze and Allen Holt, Governor's Office for Policy and Management; Jim Abbott and Commissioner Armond Russ, Department for Facilities Management; John Covington, Marilyn Eaton-Thomas, Tom Howard, and Paul Ruby, Office of Financial Management and Economic Analysis; Linda Jacobs, Council on Postsecondary Education; Claudia Andrews; David Bratcher, Economic Development Cabinet; Dr. Bob Tarvin, School Facilities Construction Commission; Harold Workman, Kentucky Fair and Exposition Center; and Jack Affeldt, LRC.

LRC Staff: Mary Lynn Collins and Shawn Bowen.

Senator Leeper made a motion to approve the minutes of the February 18, 1998, meeting as submitted. The motion was seconded by Representative Marcotte and passed by voice vote.

Chairman Damron reviewed correspondence items in members' folders which included the Kentucky Lottery Corporation's monthly financial status report for January 1998; a status report from William Dohn, Chairman, Board of Directors, for the Purchase of Agricultural Conservation Easements (PACE) Program, updating the Committee on the program; and correspondence relating to a lease award dispute on PR-3486, Department of Corrections, Marshall County.

Chairman Damron called on Mr. Bill Hintze, Deputy State Budget Director, Governor's Office for Policy and Management (GOPM), Commissioner Armond Russ, Department for Facilities Management, and Mr. Harold Workman, President and CEO, Kentucky Fair and Exposition Center, to report on a project submitted to the Committee by the Finance and

following sources: \$1,950,000 in interest earnings on previously sold Louisville and Jefferson County Convention and Visitors Bureau (LJCCVB) bonds; \$61,000 from the City of Louisville; and \$6,000,000 from additional local bonds to be issued by the LJCCVB and serviced by the existing 2% dedicated hotel/motel room tax. The additional scope increase of \$8,011,000 will bring the total project scope to \$71,801,000. Mr. Hintze added that bids have been extended until March 27 to allow the state to complete the financing package and the Committee to review it.

In response to a question from Representative Wayne, Mr. Hintze agreed the state initially underestimated what it would cost to expand and renovate the Convention Center. Mr. Workman explained part of the problem occurred when they had to redesign the project to keep Third Street open. In addition, the enhancement package came in over scope by \$1.3 million. Both of these factors contributed to the current request for a scope increase. Mr. Workman also noted the bidding climate contributed to the escalation of costs. He said there is about \$900 million worth of construction projects in Jefferson County, either under construction or ready for construction.

Mr. Hintze said portions of the project have been redesigned to minimize costs, and the project has been delayed, in part, because of complications inherent in constructing a building of this magnitude in downtown Louisville. Mr. Workman noted there were 34 separate bid packages on this project.

In response to a question from Representative Wayne, Mr. Workman said the only state funds in the project are \$25 million in state bond funds.

In response to another question from Representative Wayne, Mr. Hintze said the local bonds are not issued by Jefferson County or the City of Louisville, but by an independent entity, the Louisville and Jefferson County Convention and Visitors Bureau. He said when Mr. Workman met with bond counsel and fiscal agents to review the income stream from the dedicated hotel/motel room tax that services and supports the existing bonds, it was determined actual returns on the tax are significantly above the original estimates. He said at one time they thought they would have to look elsewhere for an income stream to address this latest cost overrun, but they are now satisfied the 2% hotel/motel room tax can service additional bonds to meet most of the current cost overrun.

Representative Wayne commended the staff involved in the Commonwealth Convention Center expansion project, and made a motion to approve the cost overrun on the project. The motion was seconded by Representative Marcotte and passed by voice vote.

Chairman Damron commented on the budget cuts in the capital construction contingency and emergency funds contained in the House version of the Executive Budget.

biennium with a lower balance than that of the emergency fund. At the same time, the number of construction projects is increasing, and competition could increase bids. He cautioned that the state's ability to fund cost overruns with contingency funds could be limited. Mr. Hintze said this action will force the state to manage its money more conservatively, and in the event of significant cost overruns, look for alternative financing methods, such as rebidding, redesigning, or utilizing non-state resources.

Chairman Damron said he raised his concerns about appropriations to the contingency and emergency accounts with the House during budget discussions. He said he was concerned about what would happen if there is a shortage of funds in either account, and how the Finance Cabinet would decide to allocate the funds if there were heavy, competing demands made on them.

Next, Mr. Jim Abbott, Director, Division of Real Properties, presented a lease modification report for PR-1095, a lease of office space in Rowan County for the Cabinet for Families and Children. He said the lessor is the Rowan County Board of Education, and the action being taken is to amortize \$1,475 over the remaining term of the lease (June 30, 1999). The lease modifications include upgrading the electrical system in the leased property to accommodate a new computer system and a copier.

Chairman Damron said lease modifications of less than \$50,000 must be reported to the Committee within 30 days, but do not require Committee action.

Next, Ms. Marilyn Eaton-Thomas, Kentucky Infrastructure Authority (KIA), reported on five projects to be considered by the Committee. The first project was a proposed loan of \$12,500,000 for the City of Maysville, from KIA's Fund A, the Federally Assisted Wastewater Revolving Loan Fund. Ms. Eaton-Thomas said Maysville is planning to double the size of its wastewater treatment facility and do general improvements throughout the system. She added the wastewater system is about 35 years old, and no longer meets state standards. Ms. Eaton-Thomas said the interest rate is 1.8% for a term of 20 years, and the loan will require an increase in the monthly user bill, from \$12 per month to \$19 per month.

Chairman Damron asked how the proposed sewer rate compares to other systems. Ms. Eaton-Thomas said the rate is a little above average for cities the size of Maysville.

Representative Wayne made a motion to approve the KIA Fund A loan for the City of Maysville. The motion was seconded by Senator Leeper and passed by voice vote.

The second project Ms. Eaton-Thomas discussed was a proposed loan of \$265,000 from KIA's Fund A, the Federally Assisted Wastewater Revolving Loan Fund, for the Warren County Water District. She reported Warren County will be installing a six-inch force main and a

for the City of Prestonsburg. Ms. Eaton-Thomas reported that Prestonsburg desires to extend sewer service to the cities of Allen, New Allen, and Dwale in Floyd County, and extend city sewer lines to R & S Truck Body, a new business in Floyd County that will provide 77 new jobs. The Fund A loan is for \$919,183 with an interest rate of 1.8% for 20 years; and the Fund B loan is for \$550,000 with an interest rate of 1.3% for 30 years. Ms. Eaton-Thomas said water usage rates for existing customers will not be affected, but new customers will have an average monthly user bill of \$26.70.

In response to a question from Chairman Damron, Ms. Eaton-Thomas said Prestonsburg has customers both inside and outside the city where different rates are applied. Chairman Damron asked if the Public Service Commission frowned on the application of different rates for different segments of the community. Ms. Eaton-Thomas said a rate schedule with different rates is allowable in this case because cities are not under the jurisdiction of the Public Service Commission.

In response to a question from Representative Marcotte, Ms. Eaton-Thomas said KIA uses the median family income of residents in the county where the project is located to determine if a city is eligible for a KIA loan hardship interest rate. The county's median household income must be less than the state average, and the proposed new utility rate must exceed 1.25% of the median household income.

Representative Marcotte made a motion to approve the Fund A and Fund B loans for the City of Prestonsburg. The motion was seconded by Senator Leeper and passed by voice vote.

The fourth project Ms. Eaton-Thomas discussed was a proposed KIA Fund B loan for the City of Paintsville. She said Paintsville is requesting a loan of \$1,772,800, to be used in conjunction with several grants to construct a wastewater treatment plant and collection lines to serve the new Federal penitentiary. The interest rate will be 1.3% for a term of 30 years.

Senator Leeper made a motion to approve the Fund B loan for the City of Paintsville. The motion was seconded by Representative Wayne and passed by voice vote.

The last project Ms. Eaton-Thomas discussed was a proposed KIA Fund C loan from the Governmental Agencies Program, for the City of Wurtland. She said this project is a refinancing of a bond issue used to fund the existing wastewater treatment plant. Ms. Eaton-Thomas said the Fund C loan amount is \$7,484,524, with an estimated interest rate of 5.25% for a term of 20 years. She said this refinancing will provide an estimated net present value savings to the city of over \$300,000.

Chairman Damron asked if KIA uses the same rule for refunding that the Office of Financial Management and Economic Analysis (OFMEA) uses for school bond refundings. That

Senator Leeper made a motion to approve the Fund C loan for the City of Wurtland. The motion was seconded by Representative Marcotte and passed by voice vote.

Chairman Damron noted OFMEA had also submitted KIA bond disclosure information for the City of Wurtland issue. Mr. Howard said as a condition of the loan, KIA is requesting the letter of credit on the existing bonds be carried over to help secure the new bond issue.

Representative Wayne made a motion to approve the KIA bond issue for the City of Wurtland. The motion was seconded by Senator Leeper and passed by voice vote.

Next, Mr. Tom Howard discussed Kentucky Economic Development Finance Authority (KEDFA) Health Care Facilities Revenue Bonds, Series 1998, for the Christian Church Homes of Kentucky. He said the purpose of this transaction is to finance the cost of acquiring, renovating, constructing, and equipping facilities in Bowling Green, Danville, Corbin, Owensboro, LaGrange, Berea, Somerset, Louisville, Hopkinsville, Lexington, Walton, and Independence. Mr. Howard said the proposed date of sale is March 30, and the expected closing date is April 23. The expected bond rating is BBB+ by Standard and Poor's; the gross proceeds are approximately \$18 million; the expected interest rate is 5.43% with a term of 32 years; and the first call date is November 15, 2008 at 102%. Mr. Howard said the bond issue is a negotiated sale with Peck, Shaffer & Williams as bond counsel, Foley & Lardner as underwriter's counsel, Ziegler Securities as underwriter, and PNC bank as trustee.

Representative Wayne made a motion to approve the KEDFA bond issue for the Christian Church Homes of Kentucky. The motion was seconded by Senator Leeper and passed by voice vote.

Mr. Howard next discussed the State Property and Buildings Commission (SP&BC) Revenue and Revenue Refunding Bonds, Project No. 60. He said the purpose of this transaction is to refund selected maturities of outstanding bonds to achieve debt service savings and to provide financing for eight economic development bond pool projects. Mr. Howard said the expected bond ratings are A2 by Moody's, A+ by Standard and Poor's, and A+ by Fitch. He said the total gross proceeds are estimated to be \$133,670,000, but because interest rates have risen since the financing team was selected and the estimates made, the refunding may vary between \$40-\$80 million, depending on the market. The interest rate for the new money was originally estimated to be 4.87%, but would be 25-30 basis points higher if bonds were issued today. The interest rate for bonds to be refinanced is estimated at 4.44%. The first call date is October 1, 2008, at 101%. Mr. Howard said this is a negotiated sale with Chapman and Cutler as bond counsel, Peck, Shaffer, & Williams as underwriter's counsel, and Merrill Lynch and Company as underwriter. The trustee has not yet been bid.

Mr. Howard identified the following SP&BC bonds as candidates for the refunding: 26(2), 26(3), 26(4), 26(5), 26(6), 26(7), 26(8), 26(9), 26(10), 26(11), 26(12), 26(13), 26(14), 26(15), 26(16), 26(17), 26(18), 26(19), 26(20), 26(21), 26(22), 26(23), 26(24), 26(25), 26(26), 26(27), 26(28), 26(29), 26(30), 26(31), 26(32), 26(33), 26(34), 26(35), 26(36), 26(37), 26(38), 26(39), 26(40), 26(41), 26(42), 26(43), 26(44), 26(45), 26(46), 26(47), 26(48), 26(49), 26(50), 26(51), 26(52), 26(53), 26(54), 26(55), 26(56), 26(57), 26(58), 26(59), 26(60), 26(61), 26(62), 26(63), 26(64), 26(65), 26(66), 26(67), 26(68), 26(69), 26(70), 26(71), 26(72), 26(73), 26(74), 26(75), 26(76), 26(77), 26(78), 26(79), 26(80), 26(81), 26(82), 26(83), 26(84), 26(85), 26(86), 26(87), 26(88), 26(89), 26(90), 26(91), 26(92), 26(93), 26(94), 26(95), 26(96), 26(97), 26(98), 26(99), 26(100), 26(101), 26(102), 26(103), 26(104), 26(105), 26(106), 26(107), 26(108), 26(109), 26(110), 26(111), 26(112), 26(113), 26(114), 26(115), 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Kentucky Asset/Liability Commission and will start to focus more on the value of call options instead of exclusively looking at present value savings when they consider refunding options.

Representative Marcotte asked if the Hennegan Company, one of the companies that will benefit from the SP&BC bond issue, is a new company. Mr. David Bratcher, Economic Development Cabinet, explained the Hennegan Company, located in Boone County, is not a new company, but is relocating its Cincinnati operations to the Boone County facility.

Senator Leeper made a motion to approve the SP&BC Revenue and Revenue Refunding Bonds, Project No. 60. The motion was seconded by Representative Wayne and passed by voice vote.

Chairman Damron asked Senator Leeper to take over duties of the Chair for the next two agenda items. Senator Leeper called on Mr. Howard to report on twelve new SFCC issues, none which required a tax increase: Bellevue Ind. (Campbell Co.) - \$2,175,000 to complete additions and renovations to the high school; Butler Co. - \$2,400,000 to partially refund 1991 bonds; Crittenden Co. - \$1,655,000 to complete additions to the high school; Harrison Co. - \$2,500,000 to complete improvements to the high school; Menifee Co. - \$1,205,000 to complete additions to the high school; Middlesboro Ind. (Bell Co.) - \$1,120,000 to refund 1991 bonds, and \$1,505,000 to refund 1990 bonds; Owensboro Ind. (Daviess Co.) - \$810,000 for roof repairs at three elementary schools; Pulaski Co. - \$2,580,000 to refund 1990 bonds; Scott Co. - \$2,600,000 to complete additions and renovations to the high school; and Simpson Co. - \$2,215,000 to refund 1988 bonds; and \$455,000 to partially refund 1991 bonds.

Representative Wayne made a motion to approve the school bond issues with SFCC participation in debt service. The motion was seconded by Representative Marcotte and passed by voice vote. Chairman Damron abstained from the vote, citing a possible conflict of interest.

Senator Leeper said there were six new local school district bond issues with locally-funded debt service that did not require a tax increase. Local school bond issues were reported for the following school districts: Ashland Ind. (Boyd Co.) - \$400,000 to replace HVAC equipment at an elementary, middle, and high school; Breckinridge Co. - \$250,000 for districtwide energy improvements; Campbell Co. - \$3,060,000 to complete additions to the high school; Corbin Ind. (Knox and Whitley Cos.) - \$585,000 to install energy management equipment and technology; Fulton Co. - \$200,000 for districtwide energy improvements; and Marion Co. - \$300,000 for districtwide energy improvements.

Senator Leeper said no action was required on school bond issues that are 100% locally-funded.

Chairman Damron said the updated monthly/weekly debt issuance calendar was